

GAY GIANO INTERIM REPORT  
INTERNATIONAL SIX MONTHS ENDED 30 SEPTEMBER 2002

GAY GIANO INTERNATIONAL GROUP LIMITED

(Incorporated in Bermuda with limited liability)

INTERIM RESULTS

The board of directors (the "Board" and the "Directors") of Gay Giano International Group Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended September 30, 2002 together with the comparative figures for the corresponding period in the previous year as follows:

UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT  
For the six months ended September 30, 2002

		Unaudited Six months ended September 30,	
		2002	2001
	Notes	HK\$'000	HK\$'000
TURNOVER	1	70,654	94,099
Cost of inventories sold		<u>(28,991)</u>	<u>(37,381)</u>
GROSS PROFIT		41,663	56,718
Other revenue		33	1,009
Depreciation		(1,800)	(2,108)
Staff costs		(18,666)	(22,796)
Operating lease rentals on land and buildings		(24,738)	(25,658)
Other operating expenses		<u>(13,256)</u>	<u>(18,544)</u>
LOSS FROM OPERATING ACTIVITIES		(16,764)	(11,379)
Finance costs		<u>(620)</u>	<u>(1,923)</u>
LOSS BEFORE TAX	3	(17,384)	(13,302)
Tax	4	<u>(2)</u>	<u>(6)</u>
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>(17,386)</u>	<u>(13,308)</u>
DIVIDEND	5	<u>Nil</u>	<u>Nil</u>
LOSS PER SHARE	6		
— Basic		<u>HK(8.69) cents</u>	<u>HK(6.65) cents</u>
— Diluted		<u>N/A</u>	<u>HK(6.10) cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET  
As at September 30, 2002

		UNAUDITED September 30, 2002 <i>HK\$'000</i>	AUDITED March 31, 2002 <i>HK\$'000</i>
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Fixed assets	7	47,224	49,164
Rental deposits		6,243	8,294
		<u>53,467</u>	<u>57,458</u>
<b>CURRENT ASSETS</b>			
Inventories		36,852	46,748
Accounts receivable	8	2,075	3,645
Prepayments, deposits and other receivables		10,252	8,511
Tax recoverable		24	—
Pledged bank deposits		—	2,000
Cash and bank balances		1,385	3,126
Time deposit		—	2,000
		<u>50,588</u>	<u>66,030</u>
<b>CURRENT LIABILITIES</b>			
Accounts payable	9	5,086	6,767
Tax Payable		—	284
Accrued liabilities and other payables		19,759	17,285
Finance lease payables		259	536
Bank loans, secured		1,555	1,583
Other loans		466	162
Due to directors	10	6,575	—
Trust receipt loans		778	11,478
Bank overdrafts, secured		—	5,338
		<u>34,478</u>	<u>43,433</u>

CONDENSED CONSOLIDATED BALANCE SHEET *(continued)*  
As at September 30, 2002

	UNAUDITED September 30, 2002 <i>HK\$'000</i>	AUDITED March 31, 2002 <i>HK\$'000</i>
<i>Note</i>		
NET CURRENT ASSETS	16,110	22,597
TOTAL ASSETS LESS CURRENT LIABILITIES	<b>69,577</b>	80,055
NON-CURRENT LIABILITIES		
Bank loans, secured	9,411	5,921
Other loans	3,521	—
Finance lease payables	222	327
Deferred tax	521	519
	<hr/> 13,675 <hr/>	<hr/> 6,767 <hr/>
	<b>55,902</b>	<b>73,288</b>
CAPITAL AND RESERVES		
Issued capital	20,003	20,003
Reserves	35,899	53,285
	<hr/> 55,902 <hr/>	<hr/> 73,288 <hr/>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

	Share capital HK\$'000	Share premium HK\$'000	Exchange fluctuation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At April 1, 2001	20,000	26,117	116	1,502	27,905	75,640
Net loss for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(13,308)</u>	<u>(13,308)</u>
At September 30, 2001	<u>20,000</u>	<u>26,117</u>	<u>116</u>	<u>1,502</u>	<u>14,597</u>	<u>62,332</u>
At April 1, 2002	20,003	26,121	116	32	27,016	73,288
Net loss for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(17,386)</u>	<u>(17,386)</u>
At September 30, 2002	<u>20,003</u>	<u>26,121</u>	<u>116</u>	<u>32</u>	<u>9,630</u>	<u>55,902</u>

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT  
For the six months ended September 30, 2002

	Six months ended September 30, 2002      2001 HK\$'000    HK\$'000	
Net cash outflow from operating activities	<b>(8,140)</b>	(2,714)
Net cash inflow/(outflow) from investing activities	<b>1,352</b>	(3,459)
Net cash inflow/(outflow) from financing	<b>13,423</b>	<u>(1,575)</u>
Increase/(decrease) in cash and cash equivalents	<b>6,635</b>	(7,748)
Cash and cash equivalents at beginning of period	<b>(6,028)</b>	<u>(1,266)</u>
Cash and cash equivalents at end of period	<b>607</b>	<u>(9,014)</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS  
For the six months ended September 30, 2002

1. Turnover

Turnover represents the aggregate of the net invoiced value of goods sold, after allowances for goods returned and trade discounts, and after elimination of intra-group translations.

2. Segmental information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

(a) *Business Segments-Unaudited*

The following table presents revenue and results information for the business segments of the Group.

	Fashion apparel		Property investment		Corporate and other		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment Revenue:								
Sales to external customers	70,654	94,099	—	—	—	—	70,654	94,099
Other revenue	22	45	—	420	—	448	22	913
Total	<u>70,676</u>	<u>94,144</u>	<u>—</u>	<u>420</u>	<u>—</u>	<u>448</u>	<u>70,676</u>	<u>95,012</u>
Segment results	<u>(15,126)</u>	<u>(10,439)</u>	<u>—</u>	<u>314</u>	<u>(1,649)</u>	<u>(1,350)</u>	<u>(16,775)</u>	<u>(11,475)</u>
Interest Income							11	96
Loss from operating activities							(16,764)	(11,379)
Finance costs							(620)	(1,923)
Loss before tax							(17,384)	(13,302)
Tax							(2)	(6)
Net loss from ordinary activities attributable to shareholders							<u>(17,386)</u>	<u>(13,308)</u>

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### 2. Segmental information (continued)

#### (b) Geographical Segments-Unaudited

The following table presents revenue and results information for the geographical segments of the Group.

	Hong Kong		People's Republic of China		Consolidated	
	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue						
Sales to external customers	<u>67,909</u>	<u>89,002</u>	<u>2,745</u>	<u>5,097</u>	<u>70,654</u>	<u>94,099</u>
Segment results	<u>(16,156)</u>	<u>(9,710)</u>	<u>(619)</u>	<u>(1,765)</u>	<u>(16,775)</u>	<u>(11,475)</u>

### 3. Loss before tax

	UNAUDITED	
	Six months ended September 30,	
	2002	2001
	HK\$'000	HK\$'000
Cost of inventories sold	28,991	37,381
Depreciation	1,957	2,304
Interest expense on:		
Bank loans and overdrafts	547	1,653
Finance leases	57	75
Other loans wholly repayable within five years	16	195
Interest income	<u>(11)</u>	<u>(96)</u>

### 4. Tax

	UNAUDITED	
	Six months ended September 30,	
	2002	2001
	HK\$'000	HK\$'000
Current:		
Hong Kong	—	—
Elsewhere	—	—
Deferred tax charge	<u>2</u>	<u>6</u>
	<u>2</u>	<u>6</u>

No provision for Hong Kong profits tax has been made since the Group did not generate any assessable profits in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates applicable in the respective jurisdictions, based on the existing legislation, interpretations and practices in respect thereof.

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

5. **Dividend**

The Directors have resolved that no interim dividend be declared in respect of the six months ended September 30, 2002 (six months ended September 30, 2001: Nil).

6. **Loss per share**

The calculation of basic loss per share is based on the unaudited net loss attributable to shareholders for the six months ended September 30, 2002 of HK\$17,386,000 (six months ended September 30, 2001: HK\$13,308,000) and the weighted average of 200,008,750 (September 30, 2001: 200,000,000) ordinary shares in issue during the period.

Diluted loss per share for the six months ended September 30, 2002 has not been disclosed as the potential ordinary shares outstanding during the period had an anti-dilutive effect on the basic loss per share for the period.

The calculation of diluted loss per share for the six months ended September 30, 2001 is based on the net loss from ordinary activities attributable to shareholders for the six months ended September 30, 2001 of HK\$13,308,000 and 218,195,000 ordinary shares, being the weighted average number of ordinary shares outstanding during the period, adjusted for the effects of dilutive potential ordinary shares outstanding during the period.

7. **Fixed assets**

During the period, the Group spent approximately HK\$746,000 (September 30, 2001: HK\$1,726,000) principally for the renovations of retail outlets.

8. **Accounts receivable**

The Group allows its franchise customers with credit period normally within 30 days and in special circumstances the credit period will extend to 90 days. The aged analysis of the Group's accounts receivable is as follows:

	UNAUDITED	AUDITED
	At	At
	September 30, 2002	March 31, 2002
	HK\$'000	HK\$'000
0 — 30 days	397	1,690
31 — 60 days	—	174
over 60 days	1,678	1,781
	<u>2,075</u>	<u>3,645</u>
	<u><u>2,075</u></u>	<u><u>3,645</u></u>



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### 9. Accounts payable

The aged analysis of the Group's accounts payable is as follows:

	UNAUDITED At September 30, 2002 HK\$'000	AUDITED At March 31, 2002 HK\$'000
0 — 30 days	2,654	3,434
31 — 60 days	710	560
over 60 days	1,722	2,773
	5,086	6,767

### 10. Due to directors

The amount is unsecured, interest free and have no fixed repayment terms.

### 11. Issued capital

	UNAUDITED At September 30, 2002 HK\$'000	AUDITED At March 31, 2002 HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	100,000	100,000
Issued and fully paid:		
200,030,000 ordinary shares of HK\$0.10 each	20,003	20,003

### 12. Operating lease arrangements

#### (a) As lessor

At September 30, 2002, the Group had not any operating lease receivable.

#### (b) As lessee

At September 30, 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	UNAUDITED At September 30, 2002 HK\$'000	AUDITED At March 31, 2002 HK\$'000
Within one year	11,143	40,392
In the second to fifth years, inclusive	41,692	20,828
	52,835	61,220

**13. Contingent liabilities**

At September 30, 2002, the Company had provided guarantees to banks for banking facilities utilised by certain of its subsidiaries to the extent of approximately HK\$11,744,000 (At March 31, 2002: HK\$24,320,000).

At September 30, 2002, the Group had no significant contingent liabilities (At March 31, 2002: Nil)

**14. Connected transactions**

- (i) During the year ended March 31, 2002, Gay Giano International Limited, a wholly-owned subsidiary of the Company, entered into a tenancy agreement with Boldsmore International Limited ("Boldsmore"). Pursuant to the agreement, Boldsmore leased an office and a warehouse to the Group for a term of one year from November 1, 2001 to October 31, 2002 at a monthly rent of HK\$182,000.
- (ii) During the year ended March 31, 2002, Maxrola Limited ("Maxrola"), a wholly owned subsidiary of the Company, entered into a tenancy agreement with Cheung For Sang, a brother of certain directors of the Company. Pursuant to the agreement, Moxrola leased a property to Cheung For Sang for a term of one year from November 1, 2001 to October 31, 2002 at a monthly rent of HK\$17,000. This tenancy agreement had been terminated at April 1, 2002.
- (iii) During the year ended March 31, 2002, Sarchio Limited ("Sarchio"), a wholly owned subsidiary of the Company, entered into a tenancy agreement with Ho Cheuk Man, a brother-in-law of certain directors of the Company. Pursuant to the agreement, Sarchio leased a property to Ho Cheuk Man for a term of one year from November 1, 2001 to October 31, 2002 at a monthly rent of HK\$24,000. This tenancy agreement had been terminated at April 1, 2002.

FPDSavills (Hong Kong) Limited, an independent firm of professional valuers, has reviewed the terms of the above lease agreements and has confirmed to the directors that the rental payable under each of these agreements is based on normal commercial terms and is fair and reasonable.

The independent non-executive directors are of the opinion that the terms of the above transactions are fair and reasonable so far as the shareholders of the Company are concerned; and that the transactions have been entered into by the Group in its ordinary course of business and on normal commercial terms and were carried out in accordance with the terms of the agreements governing such transactions.

## DIRECTORS' INTERESTS IN SHARE CAPITAL

As at September 30, 2002, the interests of the directors in the share capital of the Company or its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance were as follows:

(a) Interests in shares of the Company

Directors	Number of issued ordinary shares of HK\$0.10 each and nature of interest			
	Corporate interest	Personal interest	Family interest	Other interest
Cheung Yin Sheung, Subraina	15,000,000 (note)	—	—	—
Tong Kwong Fat	3,000,000 (note)	—	—	—
Yung Wing Sze, Vivian	—	—	—	—

*Note:* The shares are held by Gay Giano (BVI) Group Limited ("Gay Giano BVI"), a company incorporated in the British Virgin Islands which holds 120,000,000 shares, or 60% equity interest in the Company. The total issued share capital of Gay Giano BVI is beneficially owned by Cheung Sing Chi as to 72.5%, Cheung Yin Sheung Subraina as to 12.5%, Cheung Yin Fong as to 12.5% and Tong Kwong Fat as to the remaining 2.5%.

DIRECTORS' INTERESTS IN SHARE CAPITAL (*continued*)

(b) Interests in options to subscribe for the Company's shares

As at September 30, 2002, the directors had personal interests in share options to subscribe for shares in the Company as follows:

Name of directors	Exercise period of share options	Exercise price of share options HK\$	Number of share options			
			Outstanding at beginning of the period	Granted during the period	Exercised during the period	Outstanding at end of the period
Cheung Yin Sheung, Subraina	February 5, 2001 to February 4, 2011	0.2528	1,800,000	—	—	1,800,000
Tong Kwong Fat	February 5, 2001 to February 4, 2011	0.2528	1,800,000	—	—	1,800,000
Yung Wing Sze, Vivian	February 5, 2001 to February 4, 2011	0.2528	1,170,000	—	—	1,170,000

In addition to the above, certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at September 30, 2002, none of the directors had any interests in the share capital of the Company or any associated corporation as defined in the SDI Ordinance, and none of the directors, nor their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

## SUBSTANTIAL SHAREHOLDERS

As at September 30, 2002, the following parties had interests in 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

	Number of shares held	Percentage of the Company's share capital
Gay Giano (BVI) Group Limited	120,000,000	60
K&E Industries Limited	30,000,000	15

Save as disclosed above, no person, other than certain directors of the Company, whose interests are set out in the section "Directors' interests in share capital" above, had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

## SHARE OPTION SCHEME

In 2001, The Stock Exchange of Hong Kong Limited announced changes to the Listing Rules which set out the revised requirements for share option schemes operated by listed companies. In this respect, the operation of the share option scheme adopted by the Company on March 14, 2000 (the "Old Scheme") was terminated upon the adoption of the New Scheme (as defined below). In such event, no further option would be granted under the Old Scheme. However, all options granted prior to such termination and not yet exercised shall continue to be valid and exercisable subject to and in accordance with the Old Scheme.

On September 10, 2002, at the annual general meeting, the Company adopted a new share option scheme (the "New Scheme") under which the board of directors may, at their discretion, invite any full time and part time employees, directors, suppliers, customers, consultants, advisors or shareholders of any of the companies within the Group to take up options to subscribe for ordinary shares of the Company at any time during ten years from the date of adoption. The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other schemes of the Company shall not exceed such number of shares as shall represent 30% of the issued share capital of the Company from time to time. Other details of the New Scheme were disclosed in the circular dated July 29, 2002.

SHARE OPTION SCHEME (continued)

Details of the movements in the share options granted and exercised during the six months ended September 30, 2002 under the Old Scheme are as follows:

Name or category of participant	Date of grant of share options	Exercise period of share options	At April 1, 2002	Granted during the period	Exercised during the period	Number of share options			At September 30, 2002	Exercise price of share options HK\$ (Note 2)
						Lapsed during the period	Cancelled during the period	Category interchanged during the period		
<b>Directors</b>										
Cheung Sing Chi	February 5, 2001	February 5, 2001 to February 4, 2011	3,000,000 (Note 3)	—	—	—	(3,000,000) (Note 3)	—	0.2528	
Cheung Yin Sheung, Subrajitha	February 5, 2001	February 5, 2001 to February 4, 2011	1,800,000	—	—	—	—	1,800,000	0.2528	
Tong Kwong Fat	February 5, 2001	February 5, 2001 to February 4, 2011	1,800,000	—	—	—	—	1,800,000	0.2528	
Yung Ming Sze, Vivian	February 5, 2001	February 5, 2001 to February 4, 2011	—	—	—	—	1,170,000 (Note 4)	1,170,000	0.2528	
			6,600,000	—	—	—	(1,830,000)	4,770,000		
<b>Other employees</b>										
In aggregate	June 1, 2000	June 1, 2000 to December 31, 2002	2,940,000	—	—	(1,000,000)	—	1,940,000	1.5792	
	February 5, 2001	February 5, 2001 to February 4, 2011	8,260,000	—	—	—	1,830,000 (Note 3 & 4)	10,090,000	0.2528	
			11,200,000	—	—	(1,000,000)	—	12,030,000		
			17,800,000	—	—	(1,000,000)	—	16,800,000		

## SHARE OPTION SCHEME *(continued)*

### Notes:

1. The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
2. The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
3. Mr. Cheung Sing Chi resigned as an executive director of the Company and was employed as an employee of the Company as from July 8, 2002. Therefore, his options are shown under the category of "Employees" as at September 30, 2002 in the above table.
4. Ms. Yung Wing Sze, Vivian, who was previously appointed as an employee of the Company, was appointed as an executive director of the Company on July 12, 2002. Therefore, her options are shown under the category of "Director" as at September 30, 2002 in the above table.

## BUSINESS REVIEW AND PROSPECT

The Group continued to manufacture and provide high quality fashion products in the retail market. For the first half of the financial year, the turnover of the Group was approximately HK\$70.7 million, representing a decrease of approximately 25% as compared to approximately HK\$94.1 million for the corresponding period last year.

The decrease in turnover was mainly due to the sluggish market conditions in Hong Kong in the first half of the fiscal year. The raising unemployment rate and the prolonged slump of the worldwide economy discouraged the consuming willingness of the consumers in Hong Kong.

In the past six months, the management adopted different effective cost control strategies. The other operating costs of the Group has been reduced by 28% from approximately HK\$18.5 million for the last corresponding period to approximately HK\$13.3 million in the current period. However, the Company's effort to reduce cost could not cover the impact of the prolonged economic downturn in Hong Kong on the Group's performance. During the six months ended September 30, 2002, the Group incurred an unaudited consolidated net loss from ordinary activities attributable to shareholders of approximately HK\$17.4 million, which was 31% higher than that of the last corresponding period.

## BUSINESS REVIEW AND PROSPECT *(continued)*

During the period under review, Gay Giano has been elected as one of the "Superbrands" in Hong Kong. This reward not only indicates that the products of our Group are widely admired by the public, but also a recognition of the contributions of our management to the high quality apparel market of Hong Kong in the past twenty years. The Group will continue to produce fashion of excellent quality in order to further strengthen the Group's brand status in the market.

The newly developed POS (point-of-sale) system enables the Group to handle the retail data in an efficient way, which can minimize the Group's operating costs. Besides, that system can also capture some valuable customer information, such as customer's purchase history, which provides useful information for the management to determine the Group's marketing strategy.

Although, by our experience, the decrease in turnover in first half year is usually affected by seasonal factor of the apparel industry and sales performance will usually improve in the second half of the fiscal year, with the current unfavourable market conditions in Hong Kong, the management remains cautious to the overall performance of this fiscal year.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Liquidity and Capital Resources

At as September 30, 2002, net current assets and current ratio of the Group were approximately HK\$16.1 million and 1.5, respectively. The current assets mainly comprised inventories of approximately HK\$36.9 million, accounts receivable of approximately HK\$2.1 million and cash and bank balances of approximately HK\$1.4 million. The Group had total assets of HK\$104.1 million, current liabilities of HK\$34.5 million, non-current liabilities of HK\$13.7 million and shareholders' equity of HK\$55.9 million.

The Group maintained its overall gearing ratio at 0.41 in the period with total borrowings of HK\$22.8 million and net worth of HK\$55.9 million as at September 30, 2002. Overall gearing ratio is defined as the total borrowings over the net worth at September 30, 2002.



## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### **Treasury Policies**

The Group generally finances its operations with internally generated cash flows and loans facilities provided by banks in Hong Kong. As of September 30, 2002, the total outstanding short-term borrowings stood at approximately HK\$9.6 million. Borrowing methods used by the Group mainly include bank loans and other loans. The interest rates of most of these are fixed by reference to the Hong Kong dollar prime rate. The Directors believe that the Group has sufficient financial resources to discharge its debts and to finance its operations and capital expenditures.

### **Capital Expenditure**

Capital expenditures amounted to approximately HK\$0.8 million for the six months ended September 30, 2002. These expenditures were used to improve the existing retail network.

### **Pledge of Assets and Contingent Liabilities**

At September 30, 2002, the Group pledged leasehold land and buildings and investment properties in Hong Kong. At September 30, 2002, the Group had no significant contingent liabilities.

### **Application of Proceeds of New Issue**

The Group raised approximately HK\$46 million net of related expenses from issuing 50 million new shares in connection with the listing of the Company's shares on The Stock Exchange of Hong Kong Limited on April 13, 2000.

Including and up to the date of this report, the net proceeds from the new issue have been applied as follows:

- Approximately HK\$13 million for the expansion of the Gay Giano, Cour Carré and Due G Boutiques in Hong Kong;
- Approximately HK\$10 million for the development and expansion of the Group's franchise network;
- Approximately HK\$2 million for the research and development of new fashion products;

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Application of Proceeds of New Issue *(continued)*

- Approximately HK\$5 million for the repayment of bank borrowings; and
- Approximately HK\$16 million as additional working capital.

### Employees and Remuneration Policies

As of September 30, 2002, the Group had employed approximately 244 full-time employees in Hong Kong and approximately 403 full-time employees in the PRC. The total number of full-time employees of the Group is 647. Competitive remuneration packages are structured to commensurate with individual responsibilities, qualification, experience and performance. The Group has a share option scheme for the benefit of its directors and eligible employees of the Group.

### Foreign Exchange Exposure

The Group had limited exposure to fluctuation in foreign currencies as most of its transactions were conducted in Hong Kong dollars and Renminbi. Exchange rates between these currencies were relatively stable during the period under review. However, the recent fluctuation of the exchange rate of EURO may increase the exchange risk of the Group in the forthcoming year as certain of the Group's raw materials are sourced from European countries.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period under review.

## AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including a review of the unaudited interim financial statements for the six month ended September 30, 2002.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the Company's directors are aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by this interim report, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") except that the independent non-executive directors of the company are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the bye-laws of the Company.

In compliance with the Code of Best Practice, the Board has established an Audit Committee on March 14, 2000 for the purpose of reviewing and providing supervision over the financial reporting process and internal control of the Group. The present members of the Audit Committee consist of two of the Company's independent non-executive directors.

## APPRECIATION

On behalf of the Board, I would like to extend my sincere gratitude to our shareholders, customers, suppliers, bankers and professional advisors for their continued support. May I also thank my fellow directors and our staff for their dedication and contribution in the first half of the year.

By order of the Board  
**Cheung Yin Sheung, Subraina**  
*Chairman and Managing Director*

Hong Kong, December 27, 2002